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May 4, Wednesday, 1988
notes on IMF and Coups/Debt-Slavery

--IMF medicine works no more than half the time on inflation; and when inflation does drop, it may often be due to factors other than the IMF program. Questions: Aside from inflation, does the package of measures make the country more creditworthy in the short run? What, in general, would the indices look like if the measures had not been instituted? Why should the creditors rely at all on the IMF seal of approval?

--Hyp: Whether the IMF measures have any economic effect, on balance, that should reassure creditors, it has predictable political effects that do virtually close the door on the option or likelihood of: a) debt repudiation; b) protective measures against foreign investment; c) exchange controls; d) nationalisations; e) policy of self-sufficiency. It does this by discrediting any reformist, nationalist regime that adopts its measures, losing it support among its basic constituencies. Either it is replaced in an election by its main competitor--presumably, a more conservative administration whose supporters are not alienated by the continuation of these policies (leading to more credit from the IMF and banks), or by a military government pledged to eliminate the "disorder" associated with protests against the policies ("stirred up by Communists, or exploitable by Communists").

Why does it never happen (?) that the IMF policies and protests lead to the institution of a more radical, anti-IMF party, or policy, either by election or insurgency? One reason: to forestall this, the military moves. Still...

--Poverty brokers, p. 42. IMF measures haven't "worked" in either Jamaica or Chile, despite favorable credit and total implementation by conservative regimes. But how have the political bases of these regimes fared? Compared to their reformist predescessors? What would have happened if credit had been given "freely" to Manley without the conditions? Or, to Seaga, if he had stopped complying?

Why was radical solution rejected by Manley? Because there was not enough popular support for that? Because a confrontation with the business and landowning class would have defeated him <u>if democratic process had been preserved</u>--and neither he, or perhaps his supporters, wanted to overthrow that process? Does that mean that <u>without credit available from outside that is not conditioned against reform,</u> reform is ruled out in a democratic process? And that radical change is ruled out in a democratic process, in any case?

Reactionary military governments like Pinochet's can "try

out" the IMF medicine beyond anything the IMF dared to recommend; and can survive. Whether or not it "works," they can get favorable credit, benefitting the rich, their supporters. Thus their incumbency is stable, whether or not their price level or payments balance is. But why is it the military so regularly is agreeable to this base of support (foreigner powers and banks, elites) and this anti-reform, pro-IMF economic approach? (The national security state, as in Brazil, does believe in state ownership, run by them; as in Indonesia; vs. IMF "free market." But otherwise...above all, anti-union, pro-foreign investment.) (pro-profit).

Alternative to IMF package: in short-run, default on debts; pariah status, no new credit. Effects? (Compared to implementing package? Probably latter is less politically serious in short run; in mid-term, it may be almost the same, in terms of losing popular support and losing office in elections; or compel admin to shift its base of support to busines and landowners and military--which, almost always, seems to be the choice of "reform" administrations (between giving up reform constituency and giving up office, once in, they choose...).

Note: balance of payments, gold rush crisis threw LBJ out of office! (Ended his policy of ground escalation in VN, prospects of victory, contributed to his decision in April not to run again).

How did IMF policies come to triumph in US and UK? (And West Germany? And in reversing Mitterand's policies?)

It appears that full IMF treatment --like radical restrucuring from the "left"--can be done only undemocratically, as in Chile.

In Chile: US goal of a military coup, both for political reasons, and in order to impose IMF approach (its model for the TW, the opposite of Allende's or more radical approaches) (and definitely to the right of Frei's approach, or anything compatible with democracy); i.e., the IMF approach, let alone Pinochet's still tougher approach, was no longer compatible with democracy in Chile in the '70's (unions, left, too strong).

hyp: military is needed when democratic forces for "reform" can prevail democratically, so that democracy must be jettisoned if IMF free market approach is to prevail. (Guatemala 1954, Chile 1970, Brazil 1964...Argentina, 1976...). There need be no prospect of Communist regime or anything to the left of "moderate, New Deal-type reform" (combined with measures to limit control of economy by foreign capital, not relevant to, and opposed by, US New Deal). Protectionism, exchange controls, national capitalism: these are the enemies to be dismantled. If there is a more radical presence politically, that can serve as an excuse for military intervention: by US or by military Fifth Column for Western capital. (Ironically, the military serve as

the opposite of "nationalists," economically.)

What is the meaning of "acting to reduce inflation" which consists of abolishing price controls, and devaluation, both of which raise prices sharply? Is this, "reducing inflationary pressures" (do these measures do this at all, or others?) while raising prices "in the short run"?

What abolishng price controls, while weakening unions and freezing wages, and cutting welfare services (and taxes) does do, is lower real wages, and change the distribution of income, against the poor. Is this what Chicago econs mean by "reducing inflation"? (even if prices rise, and keep rising!?)

In Chile, and no doubt elsewhere, public sector employment is sharply reduce, <u>except for the military, which expanded in numbers and spending</u> (as under Reagan).